

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Sturgis Housing Commission		County St. Joseph	
Fiscal Year End Sept. 30, 2006		Opinion Date May 1, 2007		Date Audit Report Submitted to State			

We affirm that:

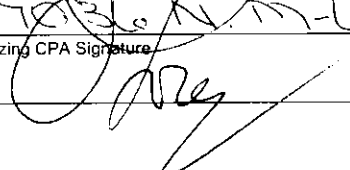
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	NOT A STATE & LOCAL GOV'T	
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) David F. Logey, CPA			Telephone Number	
Street Address 6703 E. N. M. Rd			City Sturgis	State MI
Authorizing CPA Signature 			Printed Name	Zip 49091
			License Number	

THE STURGIS HOUSING COMMISSION OF THE
CITY OF STURGIS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

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Board of Commissions
Sturgis Housing Commission of the City of Sturgis
Sturgis, Michigan

Management's Discussion and Analysis

As financial management of the Sturgis Housing Commission of the City of Sturgis, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended September 30, 2006 and 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

A. Brief Discussion of Financial Statements

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business, the Housing Commission has two separate funds - Capital Project Fund (during construction) and Housing Fund.

The statement of net assets presents information on all the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, results in increased net assets, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

B. Condensed Financial Information - Current and Prior Year

Sturgis Housing Commission of the City of Sturgis

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 199,333	\$ 251,999
Capital assets	<u>732,504</u>	<u>721,505</u>
Total assets	\$ 931,837	\$ 973,504
Current liabilities	\$ 48,275	\$ 134,008
Total liabilities	\$ 48,275	\$ 134,008
Net assets:		
Restricted	\$ 732,504	\$ 721,505
Unrestricted	<u>151,058</u>	<u>117,991</u>
Total net assets	<u>\$ 883,562</u>	<u>\$ 839,496</u>

**Sturgis Housing Commission of the City of Sturgis
Changes in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 412,412	\$ 352,856
Operating expenses	<u>(448,995)</u>	<u>(361,724)</u>
Income from operations	\$ (36,583)	\$ (8,868)
Change in net assets	\$ (36,583)	\$ (8,868)
Equity Transfer	66,367	0
Net assets, beginning of year	<u>839,496</u>	<u>845,798</u>
Prior Period Adjustment	<u>14,282</u>	<u>2,566</u>
Net assets, end of year	<u>\$ 883,562</u>	<u>\$ 839,496</u>

C.) Analysis of Housing Authority Financial Position and Results of Operations

Financial Analysis

Net assets may serve, over time, as a useful indicator of financial position. In the case of the Commission, assets exceeded liabilities by \$883,562 at the close of the most recent fiscal year. The unrestricted net assets were \$151,058. The unrestricted net assets in 2005 fiscal year were \$117,991 and assets exceed liabilities by \$839,496.

Reasons for Significant Changes in Current to Prior Year

Unrestricted Net Assets increased in 2006 from 2005 levels by \$33,067, an operating loss of \$(36,583), a prior period adjustment of \$14,282, an equity transfer of \$66,367, and changes in payables and receivables of \$10,999.

D.) Analysis of Balance and Transactions of Funds

Housing Fund

Cash balance decreased \$10,274, liabilities decreased by \$42,350 compared to 2005 year end. The fund had a increase in net assets of \$45,230 in fiscal 2006 year.

Capital Project Fund

Fund is comprised of a \$426 accounts receivable due from Housing Fund, and \$116,187 investment in capital assets, as of fiscal 2006 year.

E.) Budget Evaluation

The 2006 actual expenditures (exceeded) revenue by (\$36,583), compared to a budgeted revenues over expenditures of \$1,285. However \$42,211 depreciation was expensed out during the year which was not budgeted. If depreciation had been budgeted, the budgeted expenses over revenues would have been \$40,926, in this case the actual performance was \$4,343 more favorable than the adjusted budget.

F.) Significant Capital Assets

	<u>Capital Project Fund</u>	<u>Housing Fund</u>
Land	\$ 0	\$ 122,920
Buildings	111,269	1,110,233
Buildings Improvements	0	572,801
Furniture & Fixtures	0	93,062
Land Improvements	6,100	22,873
	117,369	1,921,889
Accumulated Depreciation	1,182	1,305,572
Net Capital Assets	\$ 116,187	\$ 616,317

G.) Known Facts - Expected to Significantly Impact Financial Position

There are no known facts, decisions, or conditions that will have any significant impact on the financial position of the Housing Authority.

H.) Cash Flows

Net cash provided by operating activities was \$4,820, net cash used in capital and related investing activities was \$15,094, primarily due to capital acquisition and construction costs.

I.) Requests for Information

This financial report is designed to provide a general overview of the commission's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, 128 S. Nottawa, Sturgis, Michigan 49091.

A handwritten signature in black ink, appearing to read 'D. Locey', is positioned above the printed name.

DAVID F. LOCEY, C.P.A., P.C.

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Independent Auditor's Report

Board of Commissions
Sturgis Housing Commission of the City of Sturgis
Sturgis, Michigan

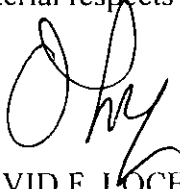
We have audited the accompanying statements, individually (Capital Project and Housing) and in total of the housing authority's activities of Sturgis Housing Commission of the City of Sturgis, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Sturgis Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sturgis Housing Commission of the City of Sturgis, Michigan, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements, individually (Capital Project and Housing) and in total referred to above present fairly, in all material respects, the respective financial position of the housing authority activities of the Sturgis Housing Commission of the City of Sturgis, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The management's discussion and analysis and budgetary comparison information, are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Any Financial Data Schedule are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'D. Locey', is positioned above the printed name.

DAVID F. LOCEY, C.P.A., P.C.
May 1, 2007

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS

STURGIS, MICHIGAN

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS	Capital Project	Housing	Total
Cash - Investments	\$0	\$193,396	\$193,396
Material inventory	0	4,000	4,000
Interfund receivable	426	0	426
Accounts receivable	0	1,511	1,511
Total current assets	426	198,907	199,333
Land, structures and equipment			
Less depreciation of \$1,306,754	116,187	616,317	732,504
Total property, plant, and equipment	116,187	616,317	732,504
Total assets	\$116,613	\$815,224	\$931,837
LIABILITIES			
Deferred revenue	\$0	\$0	\$0
Accounts payable - trade	0	9,508	9,508
Security deposits	0	13,470	13,470
Accrued payment - lieu of tax	0	24,871	24,871
Interfund payable	0	426	426
Total liabilities	0	48,275	48,275
Net Assets			
Unrestricted	426	150,632	151,058
Invested in Capital Assets	116,187	616,317	732,504
Total net assets	\$116,613	\$766,949	\$883,562

Notes to the Financial Statements are an integral part of this statement.

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS
STURGIS, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2006

	Capital Project	Housing	Total
OPERATING REVENUES			
HUD Subsidy - grant	\$134,577	\$98,634	\$233,211
Dwelling rent	0	166,764	166,764
Other	0	12,437	12,437
Total operating revenues	134,577	277,835	412,412
OPERATING EXPENSES			
Grant Expenses	134,577	0	134,577
Administration	0	97,470	97,470
Utilities	0	74,031	74,031
Operation, repairs, structures, and improvements	0	83,652	83,652
General expense	0	17,054	17,054
Depreciation	5,758	36,453	42,211
Total operating expense	140,335	308,660	448,995
Change in net assets	(5,758)	(30,825)	(36,583)
Equity transfer	4,594	61,773	66,367
Beginning of year	117,777	721,719	839,496
Prior Period Adjustment	0	14,282	14,282
End of year	\$112,019	\$766,949	\$883,562

Notes to the Financial Statements are an integral part of this statement.

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS

STURGIS, MICHIGAN

STATEMENT OF CASH FLOW

FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2006

Cash flows from operating activities:	
Rental receipts	\$166,199
Interest receipts	5,972
Other receipts	6,465
HUD Grants	134,577
Operating subsidy	<u>98,634</u>
Total inflows	411,847
Administrative	(97,470)
Utilities	(74,031)
Operations, repairs, structure, and improvements	(83,652)
Other expenses	<u>(151,874)</u>
Total outflows	<u>(407,027)</u>
Net cash provided by (used in) operating activities	4,820
Cash flows from investing activities:	
Security deposits	852
Fixed assets additions	<u>(15,946)</u>
Net cash provided by (used in) investing activities	(15,094)
Net increase (decrease) in cash and cash equivalents	<u>(10,274)</u>
Cash and cash equivalents:	
Beginning of period	<u>203,670</u>
End of period	<u>\$193,396</u>

RECONCILIATION OF OPERATING LOSS TO CASH GENERATED

Operating (Loss) Operations	(\$36,583)
ADD:	
Depreciation Expense-non cash funded	42,211
Decrease in accounts payable	(243)
Increase in accounts payable	<u>(565)</u>
Cash provided by operations	<u>\$4,820</u>

Notes to the Financial Statements are an integral part of this statement.

THE STURGIS HOUSING COMMISSION OF THE CITY OF STURGIS

STURGIS, MICHIGAN

BUDGETARY COMPARISON REPORT

FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2006

	<u>Actual</u>	<u>Budget</u>
OPERATING REVENUES		
HUD Subsidy - grants	233,211	355,059
Dwelling rent	166,764	150,940
Other	12,437	6,800
Total operating revenues	412,412	512,799
OPERATING EXPENSE		
Administration - grants	\$232,047	\$331,079
Utilities	74,031	86,650
Operation, repairs, structures, and improvements	83,652	78,560
General expense	17,054	15,225
Depreciation	42,211	0 *
Total operating expenses	448,995	511,514
Excess revenue over (under) expenses	<u>(\$36,583)</u>	<u>\$1,285</u>

* Depreciation Expense not Budgeted

The Sturgis Housing Commission of the City of Sturgis
Notes to Financial Statements
For the Twelve Months Ended September 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The Sturgis Housing Commission is located in the City of Sturgis, Michigan and provides services to low income senior citizens for housing, on a rental subsidized basis.

PRINCIPLES USED IN DETERMINING THE SCOPE OF ENTITY FOR FINANCIAL REPORTING PURPOSES

A. REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board Statement #14 "The Financial Reporting Entity". The accompanying financial statements present the housing authority and component units (none) over which the housing authority exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship.

Criteria - primary vs. component unit (none)
Oversight Responsibilities

- A. Financial interdependency - responsibility for financial deficits or entitlement to surpluses
- B. Selection of governing authority
- C. Designation of management
- D. Ability to significantly influence operations
- E. Accountability for fiscal matter

B. ENTITY WIDE FINANCIAL STATEMENTS

General operations included, no fiduciary funds.

C. BASIS OF ACCOUNTING - MEASUREMENT FOCUS

Governmental funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. Rents and miscellaneous revenues are recorded as revenues when received in cash. Investment earnings are recorded when earned (when they are both measurable and available).

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Two funds are utilized:

Housing
Capital Improvement Fund

The Sturgis Housing Commission of the City of Sturgis
Notes to Financial Statements - Continued
For the Twelve Months Ended September 30, 2006

D. BUDGETARY DATA

BUDGETARY ACCOUNTING - Formal budgetary accounting is employed as a management control for all funds of the housing authority. Annual operating budgets are adopted each year through passage of an annual budget and amended as required.

All unencumbered budget appropriations lapse at the end of each fiscal year.

E. CAPITALIZATION POLICY

Land, structures, and equipment acquired are capitalized and stated at cost.

Depreciation of exhaustible fixed assets used by the housing authority is charged as an expense against operations accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation.

F. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the housing authorities cash deposits are as follows:

Primary Government	
Deposits	Bank Balance
Insured (FDIC)	\$100,000
Uninsured	93,396
Total Deposits	<u>\$193,396</u>

The Sturgis Housing Commission of the City of Sturgis
Notes to Financial Statements - Continued
For the Twelve Months Ended September 30, 2006

G. TYPE OF TRANSACTIONS

Major source of revenue is rental from tenants, and subsidies from HUD.

H. CAPITAL ASSETS

Beginning Balance	\$1,986,048
Increase	<u>53,210</u>
Ending Balance	2,039,258
Less Accumulated Depreciation	<u>(1,306,754)</u>
Net Capital Assets	\$732,504

I. LONG-TERM LIABILITIES

None.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There are not indications of non compliance in operating procedures or rules discovered in our examination.

3. DETAILED NOTES ON FUNDS - ACCOUNTS

A. CASH AND CASH EQUIVALENTS

All amounts are at cost.

B. INVENTORY

Valued at lower of cost or market value.

C. INTERFUND PAYABLE - RECEIVABLE

Activity between Capital Project and Housing Fund are offset in total columns

The Sturgis Housing Commission of the City of Sturgis
Notes to Financial Statements - Continued
For the Twelve Months Ended September 30, 2006

D. PREPAID EXPENSES

Insurance premiums paid for periods which as of statement date are unexpired.

E. DEFERRED REVENUE

Funds collected at statement date which are designated for future periods. At statement date they are disclosed as a liability against cash receipts.

F. SECURITY DEPOSITS

Tenants pay a future security deposit which is held to offset any potential damages to property, the balance is refunded if tenant has no damages upon leaving facility.

G. ACCOUNTS PAYABLE

Represents unpaid obligations for program year at statement date, all outstanding balances have been subsequently paid.

H. PAYMENT - LIEU OF TAXES

Represents outstanding obligation to the City of Sturgis - this balance has been subsequently paid.

I. NET ASSETS

Represents the value of assets at historical costs, less accumulated depreciation, less any outstanding liabilities the Housing Authority has against those assets.

At statement date the following data represents net assets:

	CAPITAL PROJECT	HOUSING	TOTAL
Assets	\$116,613	\$815,224	\$931,837
Liabilities	0	48,275	48,275
Net Assets	<u>\$116,613</u>	<u>\$766,949</u>	<u>\$883,562</u>
Unrestricted	\$426	\$150,632	\$151,058
Restricted	116,187	616,317	732,504
Net Assets	<u>\$116,613</u>	<u>\$766,949</u>	<u>\$883,562</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Commissions
Sturgis Housing Commission of the City of Sturgis
Sturgis, Michigan Board of Commissions

We have audited the financial statements of the Sturgis Housing Commission of the City of Sturgis, Michigan, as of and for the year ended September 30, 2006, and have issued our report thereon dated May 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

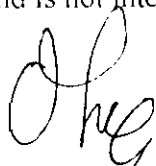
As part of obtaining reasonable assurance about whether the Sturgis Housing Commission of the City of Sturgis, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sturgis Housing Commission of the City of Sturgis, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the

risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Commissions, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'D. Locey', is positioned above the printed name.

David F. Locey, CPA
Sturgis, Michigan
May 1, 2007